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RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHDC
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RHMFISS/HQ USEUCOM VAIHINGEN GE
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
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UNCLAS SECTION 01 OF 04 KINSHASA 000022

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SUBJECT: DRC DECEMBER ECONOMIC REVIEW

11. (SBU) Summary

Agriculture

- FAO Promotes Manioc

Infrastructure

- TV and Radio Broadcasters Recoup Licenses to Transmit
- President of African Development Bank Announces Africa's First Satellite

Investment

- Swiss Government Allocates USD 136 Billion for Local DRC Elections

Labor

- European Union Donates to City Hall
- ECOBANK Opens Branch in DRC
- FEC Delegation in Paris Promotes Business During Consultative

Group Meeting

- GDRC to Use Leasing as Financial Instrument for Disbursing World Bank Funding
- Congolese Request 20 Percent Set Aside for Subcontractors of Chinese Projects

Labor

- OCPT Strike Continues

Mining

- MWANA Africa Makes Offer for SouthernEra Diamonds
- First Quantum Achieves Commercial Production
- First Quantum Announces Go-Ahead for Kolwezi Tailings Project
- BANRO Contributes to Community Development
- Governor of Katanga Province Reassures Mining Sector
- Namakwa Diamonds Funds New Mine in DRC
- Discussions to Relocate Communities Affected by Drilling/Mining Activities

Public Finance

- USD 50,000 of GDRC Money for Rapid Impact Projects in Kinshasa
- Construction of Road from Downtown Kinshasa to N'djili Airport Reportedly Underway
- Economic Indicators
- DRC Working Toward African Monetary Union Criteria
- 2008 Budget Concerns: Agriculture and Education Sectors
- IMF Team in DRC to Review Progress, Possibly Negotiate New Formal Program
- December Consumer Prices Increase in Kinshasa
- GDRC 2008 Budget Includes Record Receipts from Main Revenue Collection Agencies
- New Appointments for OFIDA, DGRAD, and DGI

Miscellaneous

- DRC Company Begins Antibiotics Production
- Animal Species Disappearing from Virunga National Park
- Fishing Banned Temporarily in Katanga Province

- New Reserve Protects Bonobo Chimpanzees

Monthly Inflation and Exchange Rates

- Monthly Inflation Rate
- 2007 Budget Deficit Figures
- December 2007 Money Supply in DRC
- Exchange Rate Survey

End Summary.

Agriculture

¶2. (U) FAO, the United Nation's Food and Agricultural Organization, is looking for partners to promote a manioc farming project in DRC. The program is being developed to alleviate hunger by providing more of this Congolese food staple.

Infrastructure

¶3. (U) Twenty two radio and television stations have been authorized to transmit again, after being suspended by the Ministry of Communication and Media. These radio and television stations had either been functioning without local licenses or were involved in intellectual property disputes involving programming content.

¶4. (U) Donald Kaberuka, President of the African Development Bank (ADB) announced that African countries were expected to have their own first satellite before the end of 2007. The satellite should help decrease telecommunication costs within and from Africa.

Investment

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¶5. (U) The Swiss Government allocated USD 1.36 billion for the next round of local elections in the DRC. This funding will be given to the Independent Electoral Commission (CEI).

¶6. (U) The European Union donated USD 22 million to the City of Kinshasa to rehabilitate the Kinshasa City Hall.

¶7. (U) The African Banking Group ECOBANK will open a branch in DRC in January 2008. ECOBANK is present in Benin, Burkina Faso, Nigeria, Senegal and Togo. ECOBANK, with headquarters in Lome (Togo), is quoted on the regional securities exchanges of Abidjan, Accra and Lagos.

¶8. (U) The Congolese Chamber of Commerce (FEC) sent a delegation of 24 to the Consultative Group forum in Paris to promote business in the DRC. The FEC delegation spoke directly to 150 members of the French Business Association (MEDEF).

¶9. (U) The GDRC will use leasing as a financing instrument for long-term investment through a new World Bank project for support to Congolese companies. The GDRC must first create a legal framework for such an approach.

¶10. (U) The FEC wants 20 percent of China-financed project subcontracts given to private Congolese companies.

Labor

¶11. (U) Employees of OCPT, the DRC public enterprise in charge of Post and Telecommunications, continued their month-long strike to protest non-payment of salary arrears. Strike leaders have also called for the sacking of OCPT's management team, citing poor leadership in an organization with high revenue potential.

Mining

¶12. (U) Mwana Africa recently completed its offer for SouthernEra Diamonds, Inc. The company now owns 84.2 percent of Southern Era Diamonds. Mwana Africa holds exploration assets for a range of commodities in the DRC, Ghana, and Zimbabwe. In May 2006, Mwana Africa acquired 20 percent of the Socit Minire de Bakwanga (MIBA).

¶13. (U) On November 2, First Quantum (FQM) announced commercial production in DRC through its Frontier Copper Mine. Frontier expects to produce 8,000 tons of copper concentrate in 2007 and 75,000 tons in 2008.

¶14. (U) First Quantum (FQM) announced the go-ahead for the Kolwezi tailings project, financed at USD 593 million. FQM currently produces copper in Zambia, DRC, and Mauritania. Kingamyambo Musonoi Tailings (KMT) holds the exploitation license to develop the Kolwezi tailing project. Project construction is due to be completed in 2009, with production to start in 2010.

¶15. (U) BANRO, a mining company operating in the eastern DRC Kivu provinces, has identified a huge gold resource. The company is contributing to local community development, technological advancement, and employment.

¶16. (U) Moose Katumbi, governor of Katanga province, reassured the mining sector about possible contract renegotiations and cancellations. He told investors that they are welcome in Katanga, despite a leaked report from a government-appointed mining review commission. Katumbi stated, "I encourage the mining companies to continue their investment programs in spite of rumors of a non-official document by the Commission reviewing the mining contracts."

¶17. (U) Namakwa Diamonds, a South Africa business, intends to raise USD 185 million through the sale of new shares to increase gem production in South Africa and open two new mines in DRC and Namibia. The Kruger family owns 25 percent of Namakwa Diamonds and is currently the company's largest shareholder.

¶18. (U) A partnership among Rainforest Foundation UK and Congolese NGOs "Natural Resources Network" and "National Center for Support to Development and Popular Participation" are evaluating a program that, through advocacy activities and lobbying, hopes to relocate local communities affected by mining and oil drilling operations.

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Public Finance

¶19. (U) The GDRC, through its Republic Social Fund (FSR) has released USD 50,000 for the NGO "Convention for the Development of Kinshasa" to carry out sixty small, rapid-impact projects. Most of the projects deal with sanitation, erosion, and the construction/rehabilitation of bridges.

¶20. (U) According to the Ministry of Public Works and Reconstruction, the downtown Kinshasa - N'djili Airport road construction has begun. This project will cost USD 150 million. The project will be carried out by a Chinese construction company.

¶21. (U) The IMF continues to monitor a number of key financial indicators for the DRC. These include the amount of international reserves of the Central Bank and other important quantitative indicators. At end December, international reserves were down to USD 150.87 million from USD 238.48 at end November. This gap (USD 24.13 million) was attributed to the GDRC payment of USD 67 million to the IMF. Most other quantitative criteria were respected: no credit was extended to non-financial public enterprises or non-financial private enterprises and the restriction of buying local and foreign money on the market against bank money.

¶22. (U) The DRC is working towards the objectives of the African Monetary Cooperation Program. This program seeks to set common econ/financial policies in order to reach a harmonized monetary

system in Africa. Its ultimate objective is the creation of an African Monetary Zone by 2021, with single money and one Central Bank for the continent. At least 51 percent of the members of the Association of African Central Banks, including the DRC, must achieve their objectives before the African Monetary Union can be launched. By end 2007, the DRC has achieved seven (three of the first rank and four of the second rank) of eleven criteria.

¶23. (U) The 2008 budget, designed to re-launch the Congolese economy, is underfunded in the agricultural and education sectors, according to the guidelines of the Protocol of Maputo. The agricultural sector is slated to receive 3.5 percent of the new budget, but should receive 10 percent. The educational sector, which was 14 percent of the 2007 budget, has sunk to only 5 percent of the 2008 budget.

¶24. (U) An IMF team from Washington was in Kinshasa for two weeks in early December to review the DRC's progress toward re-establishing a formal IMF Poverty Reduction and Growth Facility (PRGF) program. The team visited Katanga province (home of copper and cobalt mining operations) before arriving in Kinshasa. In an initial in-brief with donors, the team expressed concern over how decentralization, due to begin in 2008, would affect the 2008 budget. In Kinshasa, the IMF met with GDRC officials, including the Ministers of Finance, Budget, and Plan, to review the macroeconomic situation, determines progress on structural reforms, and work with the GDRC as it prepares its economic/financial plan for the three year period 2008-2010. Brian Ames, head of the IMF delegation, said that he has the authority to agree to a new, three-year PRGF (to be approved by IMF management afterwards) but that an estimated USD 200M budget gap for each of the next three years must be solved first through a combination of outside budget assistance and budget spending decreases. The IMF team out briefed the donors on December 18 and left December 19.

¶25. (U) The prices of consumer and manufactured goods in Kinshasa increased considerably during the first week of December. The prices of toys remained stable, but the overall price hikes appeared to negatively affect the Christmas and New Year holidays for many in Kinshasa.

¶26. (U) The National Assembly's EcoFin Commission, including trade union and revenue collection agency representatives (DGRAD, OFIDA and DGI) completed its work on the 2008 budget and sent the draft back to Parliament for approval. The revenue side of the draft budget included record projected receipt levels for the collection agencies:

- OFIDA: USD 681 million
- DGI: USD 812 million
- DGRAD: USD 1.6 billion

¶27. (U) The GDRC appointed the new managing directors for OFIDA (customs), DGRAD (administrative tax collection office), and DGI (tax collection service). The government is likely to appoint managers for the remaining public enterprises in the near future.

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Miscellaneous

¶28. (U) New Cesamex, a DRC-based pharmaceutical company, began production of antibiotics in December in the Kingabwa neighborhood of Kinshasa. The Ministry of Public Health prohibited importing certain antibiotics last September in order to support local industry and contribute to the national GDP.

¶29. (U) The Congolese National Institute of Conservation (ICCN) announced in December that some species of animals are disappearing from Virunga National Park because of on-going fighting in and around the park, in addition to poaching. The exact number of mountain gorillas left in Virunga is not known precisely; however, hippos, which numbered 25,000 in 1990, now are thought to number only around 1000.

¶30. (U) The Governor of Katanga has banned fishing in all rivers and lakes of the province for three months. The stated reason behind the ban was for fish regeneration.

¶31. (U) The GDRC announced the establishment of the Sankuru Nature Reserve, designed to protect man's closest ape relative, the Bonobo chimpanzee. At 11,800 square miles, the reserve is larger than the state of Massachusetts and lies within the world's second largest rainforest. Bonobos are known for being peaceful, cooperative, and intelligent, and are native only to the Congo Basin.

Monthly Inflation and Exchange Rates

¶32. (U) The inflation rate rose significantly at the end of December and reached nearly two percentage points. The year to date inflation rate is now close to double digits. This inflation is thought to be due at least partially to preparations for the Christmas and New Year holidays. The inflation rate may have been mitigated by delayed salary payments in public sector, including non-payment of the so-called "thirteenth month" end-of-year bonus. This effectively reduced the anticipated increase in the amount of cash in circulation during the month.

¶33. (U) According to the Congolese Central Bank, there was a deficit of FC 7,244.5 billion (USD 14.49 million). This was significantly better than the deficit at the end of 2006, some USD 50 million.

¶34. (U) Money supply at the beginning of December was FC 566 million (about USD 1.1 billion) compared with 552 million in early November 2007, an increase of 2.5 percent. This was an increase of nearly 33 percent over the December 2006 level (FC 425 million).

¶35. (U) The exchange rate increased during December as holiday spending put more money into circulation and exerted inflationary pressure on the economy. The nation-wide average depreciation of the CF for the month was 2.4 percent.

Week Ending 10/30 11/30 12/28

Central Bank Rates: 498 498 520

Parallel Markets:

Kinshasa 500 495 520

Lubumbashi 495 490 500

Mbujimayi 505 495 505

Kisangani 505 500 510

Goma 500 500 515

Bukavu 500 500 505

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